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tax upon commodities is the classic illustration of an indirect tax shifted to consumers. During the war everything in sight was taxed from silk shirts to spectacles.

Part of agitation today over revision of taxes is due to the failure to study the location of the final burden of the various taxes imposed. The principle of taxation during the war was that of the drunken Irishman at the country fair—"Every time you see a head, hit it." The only defense of such a system is that money was raised in a quick way to help win the war. Now that the conflict is over it is surely time, to paraphrase the words of the walrus, to stop talking in incoherent terms of "ships and shoes and sealing wax, of cabbages and kings." The

entire theory of taxation must be reviewed and some guiding principles adopted. Thus a tax must be proportionate to one's ability to pay and we must know where the final burden rests if we expect to escape the pernicious shifting of taxes.

The Ralston-Nolan Bill will place its burden upon the large holders of land and natural resources. It will be unfair if it taxes one form of wealth, namely land values, out of proportion to other forms of wealth equally capable of bearing taxation. The social effects will be beneficial in so far as speculation in land is discouraged and idle land is brought under cultivation. It may tap monopoly profits, but it is sure in any case to raise an enormous revenue to help defray our war debts.

The Sales Tax

By JOHN S. HORD

Washington, D. C. Formerly Collector of Internal Revenue in the Philippine Islands. President of the Bank of the Philippine Islands. Sometime President of the Manila Merchants Association

THE Secretary of the Treasury has informed Congress that this country's revenue needs are now about four times as great as they were in pre-war times. Four billion dollars will be needed each year for several years to come. Probably less than twenty per cent of this amount can be economically collected as customs duties, and internal taxation must be relied on to produce the remainder.

But, unfortunately, the two main sources, during war times, of internal revenues, excess profits and income taxes, are declining in importance. It is this awkward situation which has brought a discussion of the sales-tax principle to the forefront in this country during the last six months. Some productive, untapped reservoir of reve-

nue must be discovered without delay.

This monograph is being written on the eve of the change in the national administration. For a proper appreciation of the trend of events in the immediate past, affecting the subject matter of this discussion, a review thereof is made as follows:

TAX REVISION PROGRAM OF THE SECRETARY OF THE TREASURY

In his last annual report and in statements made to the Ways and Means Committee and in articles published in leading magazines and newspapers, Secretary Houston and his official spokesmen and tax advisers have made recommendations to the following effect:

(a) That the rates of the surtaxes on

the higher incomes be reduced and the rates on the lower ones be increased.

(b) That the excess profits tax be repealed.

(c) That certain consumption taxes, which have proved to be uncollectible, be repealed and that a new set of consumption taxes, also at high rates and equally discriminatory, be imposed on still other commodities.

The reaction to these recommendations was immediate. On the floor of the House the leaders of both political parties opposed the Secretary's recommendations, and Chairman Fordney of the Ways and Means Committee expressed the opinion that the income tax returns were "now really a Chinese puzzle." Even ex-Secretary McAdoo—during whose régime the present income taxes were enacted—is quoted in an interview of the *New York Times* as follows:

I am opposed to increased taxes on moderate incomes. Already these incomes are bearing a larger proportion of taxation than is justified. A radical revision of the war income taxes is essential to the prosperity of the country, and in that revision the moderate income taxpayer must have his burdens reduced instead of increased.

A national referendum vote conducted by the United States Chamber of Commerce has just been made public and shows that a majority voted against any increase in income taxes.

EXCESS PROFITS AND INCOME TAX TANGLES

It appears from an official statement by Treasury officials made in February, 1921, that the income tax returns for 1919 and 1920 were practically untouched in the final audit and that taxes amounting to over one billion dollars remained, therefore, uncollected.

Referring to a hearing held by the

Ways and Means Committee on December 14, one newspaper says:

Methods of raising sufficient revenues to offset losses through the prospective repeal of the excess profits tax were considered today by the House Ways and Means Committee, as the second step toward tax revision.

The day's hearings brought from the Treasury an estimate that "more than a billion dollars" were outstanding in uncollected taxes, most of which, the Treasury spokesman said, was traceable to inability to audit thousands of corporation returns. He said the revenue bureau had not yet certified the work of auditing returns for the year 1917 because of the gigantic administrative burden of tax collection.

Another newspaper reported the Ways and Means Committee hearing as follows:

Because of the complex nature of present revenue laws, Dr. Adams, of the Treasury staff, said the internal revenue bureau has been unable to complete the checking up of tax returns for 1917. He saw no immediate hope of making the audit current with the tax returns filed.

The task of auditing the tax returns and of tracing evasion and other causes of failure to pay all taxes due, Dr. Adams said, has become so stupendous that the internal revenue bureau sees no way out. Dr. Adams urged the committee to simplify the tax laws for two reasons: first, because such simplification would insure a greater and more thorough collection, and, second, because it would make the administrative work easier and more efficient.

Referring to the complexity in the present tax laws and the urgent need for simplification, Secretary Houston said in his last annual report:

Complexity in tax laws violates the most fundamental canon of taxation—that the liability shall be certain and definite . . . At present the taxpayer never knows when he is through.

Mr. Otto H. Kahn of Kahn, Loeb and Company, gives some very prac-

tical and pertinent advice in this connection, which was published very widely during last October. He says:

One of the essentials of wise taxation is simplicity of method. Nothing tends more to create a sullen animosity against fiscal measures, nothing is more apt to cause a man to feel justified in his own conscience to give himself the benefit of any doubt or technical loophole, than to be compelled, in addition to paying heavy taxes, to sit down and grapple with complicated tax forms and intricate schedules or to spend money for the employment of lawyers and accountants to tell him what he has to pay.

Resident American merchants living abroad in Europe, Asia and South America, find it hard to believe that the income tax provisions of this country have been properly interpreted. They are coming here to see about it. Representatives from the Philippines have already arrived in this country. The following quotation is from a news item in a daily published in Washington:

American business men from thirty-five foreign countries have been invited by the National Foreign Trade Council to present, during the eighth national foreign trade convention, their views on the taxation of American citizens living abroad. This important meeting will be held in Cleveland, Ohio, May 4-5-6-7, 1921.

Serious efforts are already being made by the American Chamber of Commerce of Rio, Buenos Ayres, Mexico City, Shanghai, London, Sao Paulo and Barcelona to obtain from Congress the elimination of American taxes now levied on the income received by Americans living abroad and derived from foreign sources.

This taxation has put American foreign traders at a great disadvantage in competition with their foreign rivals, who pay no taxes to their home governments on income derived from foreign sources.

In the Philippines, for instance, an American conducting a business in the city of Manila and realizing a net profit of

\$50,000 therefrom, pays a combined Philippine and United States income tax of \$9,190. A Filipino, Britisher, Spaniard, Chinaman, Japanese or citizen of any country except the United States, conducting a like business and earning a like profit, pays only the Philippine tax which amounts to \$2,535. In other words, the American merchant would have to pay \$6,655 more than his foreign competitors. Should the net income be \$100,000, then the margin against the American merchant is \$24,205.

It is evident that to the extent of his advantage in income tax, the foreigner can undersell and overbid the American, or can use the amount in advertising or in otherwise pushing his wares.

The Business Men's National Tax Committee of New York City has printed for circulation a statement by Mr. Martin R. Bourne, Vice President of the Manila Trading and Supply Company. The following are excerpts from Mr. Bourne's statement:

I know something about American taxes because Americans in the Philippines have their own federal tax troubles and are just now in an even worse situation than their fellow citizens here. The surtaxes on their business profits can not be passed to the consumer, as is done here, because our non-American competitors not being subject to the tax make it impossible. American citizenship comes very high in the Orient where our competitors, brown and white, pay no income tax. . . . We are hoping that the next Congress will not only give us relief from future American taxes, but return us what it has taken so unjustly and we need so greatly to protect our competitive position in the Orient. . . . I think we should all pay on our incomes from secure investments, and I like the idea of limiting the surtaxes to an amount based on a secure six per cent return from the tax payer's capital. . . . Such an income tax, supplemented by a sales tax such as we have in the Philippines, should give Uncle Sam more money than he can spend wisely. In fact, in the long run, it will give him all the money he can get, because it is very evident that what he is trying to get now is

rapidly destroying the source from which it is sought.

At a hearing before the Ways and Means Committee, on December 13, the spokesman for the Secretary of the Treasury said that the excess profits was fast reaching a point where its yield would be reduced greatly. He is quoted in the press as stating:

Unless the administrative burden of the excess profits is reduced the administrative machinery will break down.

Referring to the income tax this spokesman told the Committee that the present rates on high incomes were "merciless," and said they must be made "reasonable, moderate and bearable," and that "as a friend of the income tax I say we must reduce it or it is going to go. I have always been resolutely opposed to the high rates which are certain to break the back of the income and surtaxes."

In the course of a recent address, former Commissioner of Internal Revenue Roper said:

It seems that the excess profits tax must go. It is now practically without friends. It is inequitable and complicated. Furthermore, Congress will soon discover that it will no longer yield the revenue which it was designed to produce.

It was during Mr. Roper's régime as Commissioner of Internal Revenue under former Secretary of the Treasury McAdoo that the excess profits tax was enacted. Surely Mr. Roper should know its faults.

A former counsel for the Collector of Internal Revenue in New York City said at a recent conference of the State Bankers Association at the University of Iowa:

In addition to being beset with barnacles of the past and burdened with the responsibility for the enforcement of reform measures, the bureau (of internal revenue) has

had to administer, in the excess profits tax, the most complicated tax ever devised by the brain of man.

Chairman Good of the House Committee on Appropriations is quoted in the daily press a few days ago as saying:

Unquestionably the excess profits tax is in a large measure passed on to the consumer and is one of the elements that have tended to keep living costs excessively high.

Returns from a nation-wide referendum, conducted by the United States Chamber of Commerce have just been received. It appears that a practically unanimous demand is made by the chamber's membership for the repeal of the excess profits tax. A statement issued by the chamber says:

The vote makes it clear that business men are united in their view that the excess profits tax hampers business operations and retards the progress of readjustment.

On December 27, Secretary Houston is quoted by the daily press as having stated at a hearing before the Senate Finance Committee:

The excess profits tax should be replaced, primarily because it is losing its productivity, and promises in the near future to become a statute of exemptions rather than an effective tax. Moreover, the tax is so complicated that it imposes upon both taxpayers and administrative authorities burdens too difficult to be permanently carried.

Mr. Otto H. Kahn clears away some popular misunderstandings as to the operations and final incidence of the excess profits tax in the following excerpts from an article published under his name last October:

The excess profits tax has tended furthermore to increase actual cost of production, inasmuch as costs naturally are deducted before taxable profits are arrived at, and, therefore, under the operation of the excess

profit tax there is not the same inducement as under normal circumstances to keep cost down as much as possible, but in fact rather the reverse. It is a fact well known to those familiar with business practices that there has been gross wastefulness in certain lines of expenditures since the excess profit tax went into effect and as a direct consequence of it.

The conditions I have sketched lead inevitably to the conclusion that a continuance of the present system of taxation will not yield sufficient revenue for the needs of the Government. Not only is the excess profits tax so complicated and so open to different constructions that taxpayers can scarcely be blamed for giving themselves the benefit of the doubt and making their initial tax payments often less than they should be, but, because of the delay in auditing their returns, a delay forever growing longer, much of the tax that is actually due for any year can not be discovered and collected until years after.

And in order not to leave his good work half finished, Mr. Kahn, in the following words, completely exposes a certain widespread fallacy to the effect that the higher income surtaxes and the excess profits tax favor the poor man by taxing his rich neighbor:

By taking a little thought a millionaire may today pay less tax than the man who earns \$5,000 or \$10,000 a year by the sweat of his brow. So I say the country can not prosper, it can scarcely live, under such conditions. . . .

Even those of us who might like to see the rich pay all the taxes must admit that the present system does not achieve their ends. Let no one delude himself with the notion that because the present tax laws appear to tax large incomes the rich are in the final analysis paying the taxes. . . .

To those who take the view that criticism of our existing surtax schedule is necessarily the "squeal" of a rich man, I would point out that the rich man, considered merely as such, has little to squeal about on the score of the income tax, for all he needs to do is to invest his available capital in tax-exempt securities—bonds of States

and their subdivisions, of which vast amounts are offered for his choice, and then all income or excess profit taxation ceases to trouble him. By so doing he may obtain a considerably greater yield than he could hope for by investing his money in taxable securities or in his business, subject to the present scale of surtaxes.

No one will dispute the validity of the testimony as to the defects discovered by Secretary Houston and former Commissioner Roper in the provisions and operation of the excess profits tax law; all will accept their criticism as being the evidence of experts. And equal credence will for the same reason be given to Mr. Kahn's testimony regarding the manner in which the law allows the rich man to spend or save his income and profits.

TAX-COMPLEXITY EXPERTS

The army of "tax experts," "income specialists," "tax trained accountants and auditors," etc., which during the last few years has invaded this country from coast to coast, are the legitimate offspring of the complexities, ambiguities and actual contradictions of the provisions of the excess profits and income tax laws, and of the rulings, interpretations and regulations administratively provided for the enforcement of the said laws.

The fees charged by these tax-complexity experts are by no means modest. Were the provisions of the tax laws simple and understandable, this new profession would not be so popular as a vocation. Therefore, as a direct result of the law's complexity, tax payers are forced to pay these tax-complexity experts substantial sums which are in the nature of tax surcharges but which never reach the Treasury vaults.

The spokesman for the Secretary of the Treasury told the Ways and Means Committee on December 14, that:

The turnover in our high grade tax experts is enormous. It amounts to over a hundred per cent a year. . . . Men come in, become expert, and leave for private fields where they make much more money.

On January 18, he is quoted as having stated in effect to a group of bankers and merchants at Cleveland that the taxes must be simplified or better salaries paid to the government tax experts in order to prevent their quitting the service and disrupting the tax administration. Secretary Houston told the Senate Finance Committee on December 27 that tax experts earning annually \$5,000 salaries in the Bureau of Internal Revenue were bid away by taxpayers at higher salaries, in some cases as high as \$100,000.

Viewed practically, all these complications and the sinful loss of time and money by tax collectors and taxpayers seem unnecessary. Had simple, understandable laws been enacted in the first place, the taxpayers would not now be forced to pay surtaxes into the pockets of these tax-complexity experts, and the tax administrators would now find their personnel satisfied as to compensation, and sufficient in number to keep their assessment, collection and audit work up to date.

As it is, the audit of returns is from two to three years in arrears, and between one and two billion dollars representing accrued taxes, remain uncollected. What portion of this money will never be collected? Can anyone doubt that a substantial portion of this total is due by concerns that have either already gone out of business or will do so before collection day—following the long deferred audits—comes around? In what frame of mind will this leave the men who have paid their taxes?

Unquestionably there has been too much striving, in theory, after absolutely equal justice to each and all;

too much show of intellectual dexterity as the cardinal virtue in law making; too much interweaving and thread-tying; and also too little regard for the familiar advice of Adam Smith that "the certainty of what each individual ought to pay is in taxation of so great importance that a very considerable degree of inequality is not near so great an evil as a small degree of uncertainty."

UNITED STATES SALES TAXES

Those who have read objections by opponents to the introduction here of a flat one per cent tax rate on all sales (such as has been in successful operation in the Philippines for over sixteen years) would naturally suppose that sales taxes are unknown in this country. They are, however, very much mistaken. The existing internal revenue law of this country imposes excise, or luxury, or consumption taxes, as they are variously called, on the *sale* of a long list of articles beginning with ice cream sodas, continuing with carpets and umbrellas and ending with neckties and pajamas. The tax rates range in amount anywhere from 3 per cent *ad valorem* up. In addition, there is a widely assorted list of specific rates which no storekeeper would ever live long enough to memorize. These taxes are frankly discriminatory. Certain articles are taxed at say 10 per cent or at other high rates, while other articles not identical but similar enough to be competitive are taxed at lower rates or are not taxed at all. These various taxes were evidently imposed in a hit-or-miss sort of way, as no consistent theory in their application is discernible.

A former counsel for the Collector of Internal Revenue in New York City said recently in the course of an address before the Bankers Association at the University of Iowa:

Aside from the practical difficulties of administration which loom large in my mind, because I have had some experience with them, the existing and proposed sales taxes on the articles enumerated are monstrously unequal and inequitable.

If the intention of the framers of the regulations for enforcing payment of these taxes had been not to allow the taxpayer to forget them they certainly succeeded admirably, because the reminders are ubiquitous and omnipresent. On a sultry afternoon a business man before going home takes a cooling drink at a soda fountain, and a little machine passes out a slip with "Tax 1 cent" on it. He takes his wife to the movies and purchases their tickets according to the "tax included" sign above the teller's window. They stop at the drug store on their way home and the druggist attaches a "tax paid" stamp to their purchase. When they get home the wife reads the advertisements in the evening paper and finds a bargain. She reads it aloud,—"Beaded bags, greatly reduced—\$11.95, tax additional."

The writer saw a notice on 10th Street, in Washington, in front of an old style house stating that a large collection of articles formerly belonging to a Civil War-time president were on exhibition. Beside it was the following sign, "Admittance 27 cents. War tax 3 cents—Total 30 cents." And in the same neighborhood was a milliner's show window where, amidst a garden of hats and shirtwaists, a card informed the passers-by, "Miss So-and-So, Income Tax Expert."

It is some of these arbitrary, discriminatory consumption or sales taxes on certain goods that the Secretary of the Treasury asks, in his last report, that Congress repeal on the ground that they are "ill-defined, uncertain, vexatious and widely evaded," and that "such evasion cannot be stopped"

without incurring expenses greater than the tax collections would justify.

Unfortunately, the Secretary advises simultaneously the imposition of other discriminatory taxes, also at stiff rates, on such necessities as sugar and tea. It is not to be expected that a dealer in tea and sugar will go on good-naturedly paying a high tax on his goods while his neighbor and competitor, say in coffee and molasses, across the street, pays no tax at all. It will not work. It might work if his store, and thousands of others like his, could be put in charge of gaugers, watchmen and inspectors, as distilleries and tobacco factories are, and no non-tax paid sugar or tea or other goods be allowed to leave the premises. But that is, of course, impossible. It would cost more than the taxes collected would amount to.

Now if the sales tax applied uniformly to all goods, wares and merchandise sold by all merchants or manufacturers, then the tax rate could be made so low that there would be little temptation to defraud the revenues. At least that has been the experience with the Philippines sales tax law during the last sixteen years, where there are no discriminatory taxes on sales, where all pay cheerfully and where attempts at fraud are a rarity.

But so long as there are discriminatory sales taxes on general commodities, and at high rates imposed in this country, just so long will the Secretary of the Treasury be periodically requesting Congress to repeal certain sales taxes on the ground that they are "ill-defined, uncertain, vexatious and widely evaded," and that "such evasion cannot be stopped."

Thousands of newspaper columns are at this writing being filled with advice to taxpayers of all kinds. Many of these items are quite amusing. One such is quoted below. A dealer in

automobile parts had asked the National Automobile Association to enlighten him as to the proper assessment, for tax purposes, of his sales. Part of the advice given him reads as follows:

There is no criminality, however, in overcollecting the tax, provided it is based on average figures and provided further that all of the tax collected is returned. The net result is that you average these taxes at your peril and if your ratio changes so that the Government does not receive the full tax you will be held for it, while if you overcollect it the Government will take it all.

At a hearing before the Ways and Means Committee the spokesman for the Secretary of the Treasury said, "We are having a perfectly enormous amount of evasion in the collection of the sales taxes now in effect." And later he stated that the introduction in this country of a sales tax similar to that in the Philippines would involve extending the administrative machinery to millions of additional taxpayers and would break it down. Evidently the Secretary's representative knows a lot about his own law and very little about that of the Philippines.

OTHER UNITED STATES LAWS IMPOSING TAXES ON SALES AND PERSONAL PROPERTY

It is amusing to read the indignant remarks of the opponents to the introduction here of a one per cent per turnover sales tax and of its iniquitous, cumulative effects,—opponents who nevertheless nimbly recommend the continuance here of their own high rate sales tax law, described above. This they propose to do by simply switching the incidence of the taxes from commodities which have heretofore evaded them to a new line of commodities which promise to prove equally fickle.

But the most inexplicable oversight

on the part of the opponents of the sales tax principle is their failure, so far, to recognize the fact that both the federal and local revenues of this country have in the past been derived mainly from indirect consumption taxes paid on every day commodities sold in this country. This was especially true up to the year 1914 when customs duties and internal revenues supplied about 90 per cent of the Federal Government's needs. Due to prohibition and the enactment of large war taxes the proportion of these taxes to the total is less than it was. But it is still important.

Customs duties collected on imports from abroad are on an average at very high tax rates when compared with the one per cent rate of the proposed sales tax. It is true that the sales tax normally accumulates from two to four times on its way to the ultimate consumer but even then the increase in price to the ultimate consumer will normally range between $2\frac{1}{2}$ and $3\frac{1}{2}$ per cent. That is, after the manufacturer, wholesaler and retailer have all added their profits on the original price of the goods plus their profits on the profits of the merchant or merchants who handled the goods before them. Even then the ultimate consumer will, because of the one per cent sales tax, only pay the retailer from whom he buys from $2\frac{1}{2}$ to $3\frac{1}{2}$ per cent more than he would if the sales tax was abolished.

Now compare this with the duty paid by the importer at the customs house, say 15 per cent, although the import duties on many articles are as a rule very much higher. This 15 per cent the importer adds to the cost of the goods, and on the total thus obtained he estimates and adds his percentage of profit. The wholesaler and retailer of these imported goods each do likewise, and when the consumer finally takes the goods he pays, to-

gether with the original price when landed in the United States, three profits on the original price, by importer, wholesaler and retailer respectively. He also pays the original 15 per cent customs duties which go into the Treasury vaults, and in addition pays three profits on the original duties, which are in the nature of surtaxes but which remain in the pockets of the importer, wholesaler and retailer, respectively.

So far as the government is concerned it must be satisfied with the original 15 per cent duties paid at the port of entry. There are no further turnover customs duties to go to the government. But this 15 per cent means several times as much as a sales tax with three or four turnovers at a 1 per cent tax per turnover.

So far as the ultimate consumer is concerned the manner of the accumulation on the original duty would follow the same course as do the various turnovers on the original sales tax such as exists in the Philippines. But due to the fact that the customs duty paid is greater than the 1 per cent rate of the sales tax the amount finally accumulated is correspondingly increased.

As regards the internal revenue taxes on tobacco products, beverages, etc., the same procedure follows as is described above in the case of imports. The original tax rates are much higher than the 1 per cent sales tax rate and accumulate much more heavily. The manufacturer of tobacco products, etc. pays the original high internal revenue tax just as the importer pays the original high customs duty. After that, the procedure through the dealers to the ultimate consumer is the same in both cases.

In this country most states, counties and cities impose flat *ad valorem* taxes, usually 1 per cent or more, on personal property. These taxes are

collected periodically on the assessed value of all personal property including stocks of goods on wholesalers and retailers shelves and in their warehouses. The tax is assessed on the value of the same articles as is the sales tax, *i.e.*, goods, wares and merchandize. It is collected by the same man, *i.e.*, the storekeeper. It is finally paid by the same man, *i.e.*, the ultimate consumer. It is imposed at approximately the same rate, *i.e.*, 1 per cent. All of which would seem to prove that the personal property tax on goods, wares and merchandize in this country and the much disputed sales tax in the Philippines are laws which are well nigh identical in amount, manner of assessment and collection, and final incidence.

But there is a vital difference between the two systems:—The sales tax in the Philippines accrues on goods which have left the merchant's shelves; that is, when he has sold them and is therefore best able to pay the taxes on them. The personal property tax in this country accrues, periodically, on the goods which remain on the merchant's shelves; and if they remain unsold a sufficient length of time the next assessment period rolls around and the merchant pays a second tax on the same goods.

The opponents to the sales tax have asserted that its introduction here would disrupt business and produce a diversity of dire calamities. If such a result is inevitable because of a tax law which makes it easy for the merchant to pay his taxes by collecting them when he is flush, what then should logically have been happening to business in this country during the past years under a law, such as the American personal property tax, which forces the merchant to pay his taxes on unsold goods,—when his shelves are full and his cash till probably empty?

Yet notwithstanding these object lessons at home an unreasoning fear against sales taxes seems to persist in the minds of many in this country. Nearly a year ago the Secretary of the Treasury wrote a letter to Chairman Fordney of the Ways and Means Committee informing him that there are "grave objections" to a "sales tax which I understand your Committee is considering."

ATTEMPTS TO REHABILITATE THE PRESENT LAWS

The Secretary of the Treasury recommended to Congress the regrading of rates and a general revamping of the present tax laws. The main trouble appeared to be the very natural tendency of the wealthy to invest their incomes and profits in tax exempt securities.

Congressman McFadden, as a remedy to this oversight on the part of the original framers of the tax laws, proposed an amendment to the United States Constitution making all such securities subject to federal taxation. This remedy, however, involved such a long wait while the various states acted, that the patient would probably not survive the delay. Nothing more has been heard of the proposed amendment.

In order to supplement the failing revenues, Representative Treadway proposed a tax of one-fourth of 1 per cent on bank deposits, which he believed would produce one billion dollars annually. Nothing further has been made public as to the fate of this bill. Possibly it will be decided that this proposed remedy, economically considered, is worse than the disease it is intended to cure.

Other remedial legislation was suggested and dropped. Congress seemed unwilling to merely revamp a number of discredited laws, and send them

again to sea in a patched-up condition. Treasury officials had made no secret of the fact that for a long time the tax machinery had been gradually slipping. Now evidently it had finally slipped!

At this stage the chairman of the Senate Finance Committee issued a warning and a call to duty to the American people in the following words:

We are facing the biggest problem ever faced by any country. It is going to tax the ingenuity of experts, and it requires the help of legislators, the government and the business community to equip America with proper revenues.

SALES TAX INDORSED IN THE HOUSE OF ITS ENEMIES

Mr. Alfred Reeves, General Manager of the National Automobile Chamber of Commerce, surprised the anti-sales tax proceedings of the National Industrial Tax Conference, in New York City, by stating that:

No person and no government has a right to so pile taxes on any one industry as to jeopardize its very existence. . . . We hear occasionally that it would be difficult to impose a sales tax. It is worth noting that a sales tax has been imposed on the automobile industry for the past two years, and there has been no difficulty about collecting it. Before there is any doubling up on the taxes on the industries now paying a sales tax it has occurred to our people that it might be well to have some other industries join with us.

"WAR ON SALES TAX"

On February 18 a news item from Chicago reading as follows was widely published:

URGES WAR ON SALES TAX—
Revenue Official Tells Business to Unite against Proposed Levy. Chicago, Feb. 17.
—Business men were urged to unite in opposition to the proposed sales tax by Dr. Thomas S. Adams, chairman of the advisory board, Bureau of Internal Revenue, and special adviser to the United States

Treasury Department, in an address to-night.

"It is time that the business man, the consumer and all those who desire economy in public expenditures, should arouse themselves to the menace in the propaganda now being conducted in behalf of the sales or turnover tax," Dr. Adams said.

Some days earlier Dr. Adams stated at a taxation discussion at the National Republican Club in New York City, that he felt as a "lifelong Republican" he had the right to protest against the support given by a small faction of the Republican Party to the sales tax, the effects of which would be:

To bring about great combinations and make terrific political problems. Such taxation in its results does tend to separate the classes, and it is going to be increasingly difficult in the coming years to prevent class warfare.

Editorially the *New York Times* refers to these and similar unnecessary alarms under the title "Sales Tax Ghosts."

INTEREST IN AND ENDORSEMENT OF THE SALES TAX

The Review of Reviews (February) says:

The country which we can study with the greatest profit and from which we can most easily obtain information is the Philippine Archipelago, where a sales tax has been in operation continuously since 1905.

The sales tax has been publicly endorsed by a number of chambers of commerce, industrial and commercial associations and by many prominent men including Mr. Edison.

The Government of the Philippine Islands has informed the Secretary of the Treasury in Washington that the sales tax law over there has during the last sixteen years proved to be the most productive, accurate, satisfactory and equitable tax they have; that its ad-

ministration was not expensive and that it produced no public complaint.

Mr. Martin R. Bourne, Vice President of the Manila Trading and Supply Company, with offices in the Philippines and New York City, says in a statement printed and circulated by the Business Men's National Tax Committee of New York City:

I am very glad to give testimony in favor of the sales tax as the simplest and most efficient form of business tax. . . . I know that I express the unanimous sentiment of both citizens and officials in the Philippines. My enthusiasm is theirs. . . . Possibly its greatest single advantage from the merchant's viewpoint is its certainty and simplicity. It involves no guesswork. He does not have to figure in graduated percentages to know what amount of price-loading is necessary to cover the tax. He does not have to wait a year to know the amount of his tax. At the close of every business day we know our tax for the day's business. We pay it quarterly. We also feel that we are mere collectors. The tax is a recognized cost item which is figured in the selling price. . . . The tax is tremendously popular with all and so far as I have ever heard has never been criticized either by the merchant or the consumer. The Philippine government has found it a great success both in the revenue produced and also in its effective collection. One never hears of any effort at evasion. In a sense it both collects and pays itself. No one feels that the government is taking anything from him. He is simply collecting for the government. If he failed to account and pay over the tax it would seem more like theft than ordinary tax avoidance. Unlike profits taxes in the United States the Philippine Sales Tax makes for conservation and certainty in figuring profits and selling prices and leaves nothing to the future to embarrass credits and endanger solvency. . . . We will gladly share with you the benefits of wise revenue legislation in the form of the sales tax which we have received from wise American administrators. This is the only tax which should rest directly on business.

That tax collectors and taxpayers should share each other's enthusiasm over a tax law which also produces ample revenue, seems too good to be true. How different from the situation in this country where tax collectors and taxpayers abuse the tax law all day and then take turns sitting up at night and denouncing it further. And now it is about to lose even its right to be called a revenue producer because it threatens to stop producing.

In a report to the Republican National Committee the Hon. Ogden L. Mills, Chairman of the Advisory Committee on Platform and Policies, refers to the Philippines Sales Tax as being "in successful operation" and recommends:

Other things being equal, it would be desirable in this country to test, by actual practice, side by side, the comparative virtues of the sales tax and the income tax. . . . It would be, if not easy and simple of operation, at least more simple and certain than the income and profits tax.

Mr. Mills' recommendation is most practical; there is nothing the advocates of the sales tax principle would welcome more than a thorough investigation of the merits of the Philippine Sales Tax through a practical test such as Mr. Mills recommends. This would settle for all time the much debated question as to the applicability of the sales tax system to the commercial and industrial conditions obtaining in this country.

Mr. Mills' comparison of the Philippine Sales Tax and the income tax of this country is also most logical. There is a strong resemblance between the incidence of the two taxes. The sales tax also comes out of the ultimate consumers income. The main difference is that here the tax falls on the net income and in the Philippines on the gross income.

In this country the taxpayer in order to arrive at his taxable income is allowed to make deductions such as the salary due by a farmer to a woman worker while milking cows but not while the same woman was doing house work, etc. There is a large assortment of ingenious administrative provisions of this type which really amount to law-making by tax officials. One income taxpayer complains that he is obliged to make eighty-six reports to federal and state collectors of income taxes, and that recent laws will add twenty-three more.

In the Philippines each taxpayer grades his own income tax when he buys things to eat and wear. He increases or decreases his tax at will, (within reasonable limits) and has no reports whatever to make. The amount of his income (or sales) tax varies in amount according to his ability and willingness to pay. He pays it as he goes along and does not feel its effects. Whereas in this country today, (especially since the commercial depression began) there are hundreds of thousands of taxpayers who now, when their salaries and incomes have been reduced, are called on to pay taxes on the much higher salaries or incomes they enjoyed last year when the taxes accrued but were not paid.

THE PHILIPPINES SALES TAX

The writer of this monograph was asked over sixteen years ago by Governor General Taft and Secretary of Finance and Justice Ide, of the Philippines, to submit a draft of a tax on general business in the Islands. This was done and sent to the Philippine Commission for legislative action with a letter of transmittal from which the following excerpt is taken:

The system of taxation proposed in the inclosed draft may be described as an in-

direct tax on certain personal property collected at the time of change of ownership. . . . Whether or not there is any absolutely certain, complete and equitable method devisable for the assessment of personal property will probably forever remain an unsolved problem. I submit the inclosed draft of law because I believe it will eliminate most of the objectionable features of the existing law, establish a more uniform rule of taxation, and will put merchants and manufacturers on an even footing in so far as such equal rights and opportunities can be secured by legislative enactment.

Tax Provisions. The Philippine law as finally enacted provided a tax of 1 per cent on every turnover of goods, wares or merchandise, whether by manufacturer, wholesaler or retailer, which accrued at the time of change of ownership of the goods, and whether the sale was made on a cash, credit or installment basis. Farmers, small boothkeepers, peddlers and others subject to license taxes, were exempted. Services, real estate and capital stock sales were not included, some of these being considered properly exempt, and others as taxed in other ways. Transfers of stock, bonds, etc. were variously reached in the documentary tax schedules, and brokers, etc. were subject to specific license taxes. The Sales Tax was made exclusively applicable to goods, wares and merchandise which changed ownership within the Philippine Islands.

Assessment and collection. Each merchant and manufacturer was registered each year and was furnished a license form with four columns and four coupons, one of each for each quarter. At the end of each quarter he totaled up his sales in a book which, even before the tax was imposed, he kept for that purpose. The only additional work which the Sales Tax Law imposed on him was to make him move the decimal point in his total sales two columns to

the left (at a 1 per cent rate), tear from his license the coupon for the proper quarter, enter thereon the tax due, send it with the necessary funds to the local tax collector, get the serially numbered stamps and glue them to the license on the wall of his store in the column for the quarter just expired. No receipts were ever issued for tax payments—the serial numbers on the stamps spoke for themselves and were sufficient to identify the individual payments. All that the merchant or manufacturer had to see to was that he did not lose the license form with the attached stamps.

Simplicity of provisions. The provisions of law just recited are about all that are essential in the Philippine Sales Tax. They all relate to fundamental facts which hold good in all parts of the world where goods, wares or merchandise change hands. Canada, Mexico and France have successful sales tax laws with provisions equally simple and understandable. Why would not such a tax law work here? The answer is that a uniform tax law with simple, understandable provisions would work here, just as such laws are successfully functioning in the countries I have enumerated.

TAXATION OF SELF CONTAINED INDUSTRIES

Opponents of the sales tax principle have insisted that it would be inapplicable to this country because of the existence here of large self-contained industrial manufacturing concerns, which assumedly would pay the sales tax only once, whereas their functioning from raw material to finished product involves several distinct processes. The argument lies in the claim that the small manufacturer would have to pay the sales tax several times to turn out the same finished products, *i.e.*, an

additional tax for each change in form of the article manufactured.

The answer to this objection is quite easy: Collect the tax from the large integrated concern as many times as there are processes between the raw material and the finished product. Whether or not this would be a throw-back on the economic history of civilization during several generations, whether or not this would be an attempt, in a tax law, to penalize efficiency, are questions for the lawmakers to decide on grounds of public policy.

Modern machinery and methods began over two hundred years ago to furnish more goods, better goods and cheaper goods to consumers the world over. Surely any attempt at this time, by means of a few 1 per cent taxes, to force a resumption of the crude, expensive methods of yesterday, would prove but a silly gesture.¹

RECOMMENDATIONS

Investigations made by Professor Irving Fisher, by Mr. Joseph McCoy, Actuary of the Treasury Department, and others, as to the potential annual productivity of a sales tax in this country at a 1 per cent rate per turnover, give widely divergent results. The amounts range all the way from under two billion to over five billion dollars. If an average of the varying estimates be taken the amount is still sufficient to meet the extraordinary revenue needs of this country.

In this estimate it is assumed that customs duties and internal excise taxes on such old, tried and true articles as tobacco products, etc., will to-

gether produce one billion. This would leave approximately three billion more to come from a sales tax, from a reasonable flat rate income tax and from all minor sources, *not*, of course, including excess profits, income surtaxes and the present discriminatory luxury or consumption taxes, all of which should be repealed with as little delay as possible.

Taxation has not yet been placed in the category of exact sciences. Whatever system is adopted is bound to meet with just criticism. But if the text of the new law is free from complexities, certainty of assessment and collection will follow, and the nearest possible measure of justice will be secured to all taxpayers.

The advocates of such modification of the present taxes as will give them a new lease of life, may be divided into three groups, thus:

Group 1. Academicians and official tax advisers, experts, etc. This group represents pride of authorship. Their mental attitude is quite understandable. They no doubt act in perfect good faith but their intellectual dexterity is such that they have succeeded in convincing themselves that their position is irrevocably right.

Group 2. The tax-complexity-experts. The monetary attitude of this group is also clear. They have fattened on the weaving, interweaving and thread-tying dexterity of those included in Group 1.

Group 3. The men of moderate means who were led to believe that their taxes would be shifted to the shoulders of their well-to-do neighbors. Their position is pathetic. Their eyes have been opened at the eleventh hour to the fact that an exit marked "Tax Exempt Securities," on the working plan of Group 1, escaped attention when the tax scheme was originally prepared. The number in this group is fast dwindling.

Soon they will all have passed over to a new group embracing all taxpayers in this country, whose ambition will be to really pay taxes and be taxpayers

¹ Further information regarding the Philippine Sales Tax will be found in the Report of the Philippine Commission to the Secretary of War for 1905. Also in an article, prepared by the writer hereof, entitled "Internal Taxation in the Philippine Islands," and published by the Johns Hopkins Press in January 1907.

in something more than the name; who will hold no longer to the hope of becoming parasites on the body politic. And this new group will recognize in the repeal of the excess profits and in-

come surtaxes and in the enactment of a simple, sane and just sales tax law the opportunity for each and all to bear their full share of the national tax burden—and no more.

The Incidence of a Sales Tax

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A SALES tax may take any one of several forms. It may be an inclusive sales tax, that is, a tax levied upon every sale or transaction. Or it may be limited to the exchanges of any one of several classes of transactions. For example, the sales of commodities, or the sales by manufacturers and wholesalers, or the sales by retailers. A tax such as the present theatre tax is a sales tax, but when a sales tax is narrowly limited to some one good or narrow class of goods, it is customary not to call it a sales tax but rather to designate it by the name of the good or service taxed. An extended analysis would be necessary in order to reach a conclusion as to the kind of sales tax, if any, that it would be advisable for us to adopt at the present time. It is the purpose of this paper to consider only one phase of sales taxation; namely, the incidence of a sales tax.

INCIDENCE UNDER COMPETITION

Let us assume, first, that the tax is levied upon the sales of goods that are produced under competition. What will be the incidence of such a tax? The answer must be divided into three parts depending upon whether the goods are produced under conditions of increasing expense of production, or under constant expense, or under decreasing expense. That is, upon whether, as output is increased, the expense of producing the successive

units involves more expense, similar expense, or less expense than was incurred for the preceding units.

Taking the first case, that of a good produced at increasing expense under competition, the conclusion is that the price of the good will be increased because of the tax but by less than the amount of the tax. The burden of the tax will be divided between the buyers and the producers (the sellers) of the good in question. The analysis is as follows: Under competition the market price of a good is set at the point that will clear the market. Any point above this will decrease sales and leave goods unsold. Any point below this will stimulate bidding for the good, and raise the price. But, aside from the competitive bidding of buyers, price will not tend to fall below the point at which the goods on the market will be taken, because it is not to the interest of the sellers to underbid each other below the point at which all can sell. With the price set at such a point, the point that will just clear the market, the imposition of a tax will, if any part of it is added to the price, reduce buying and leave goods unsold. What then will sellers do, who in the case we are considering are producers? Will they bear the tax? Under competition, the production of a good which is produced at increasing expense will be extended to a point at which the price received just equals